

Message Text

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ORIGIN NEA-10

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INFO AMCONSUL DHAHRAN
USLO RIYADH

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E.O. 11652: GDS

TAGS:EGEN, BEXP, EINV, SA

SUBJECT:STATUS REPORT ON JUBAIL PETROCHEMICAL PROJECT

1. S.G. STILES, VICE PRESIDENT SHELL OIL AND LEWIS HOFFACKER, SHELL CONSULTANT, CALLED ON DEPARTMENT OFFICIALS SEPTEMBER 6 TO GIVE STATUS REPORT ON SHELL'S 2.2 BILLION DOLS. JOINT VENTURE PETROCHEMICAL PLANT WHICH WILL BE KEY FACILITY IN JUBAIL INDUSTRIAL COMPLEX AND SYMBOL OF SAUDI INDUSTRIAL DEVELOPMENT EFFORT. STILES REPORTED THAT PROJECT IS "STALEMATED" BECAUSE OF INABILITY OF SAUDI BUREAUCRACY TO MAKE NECESSARY DECISIONS. SHELL IS CONCERNED BECAUSE OF IMPLICATIONS BOTH FOR ITS INVESTMENT AND FOR USG.

2. SHELL HAS TWO BASIC REQUIREMENTS FOR ITS PARTICIPATION:
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(A) ASSURED LONG-TERM SUPPLIES OF CRUDE OIL FROM SAUDI ARABIA; AND (B) AT LEAST AS GOOD A RETURN FOR JOINT VENTURE INVESTMENT AS THEY WOULD RECEIVE FROM SIMILAR FACILITY IN THE U.S. RE ASSURED PETROLEUM SUPPLIES, SHELL THOUGHT THAT THEY HAD NEGOTIATED AN AGREEMENT LATE IN 1975 WHEREBY SAUDI ARABIA WOULD SUPPLY 350,000 BPD OF CRUDE FOR 20 YEARS. HOWEVER, MANAGEMENT OF SHELL'S JUBAIL

PROJECT IN 1976 WAS SHIFTED FROM PETROMIN TO MINISTRY OF INDUSTRY AND SUPREME PETROLEUM COUNCIL HAS NOT MET TO

APPROVE THIS CRUDE OIL ALLOCATION. CONCERNING SECOND SHELL REQUIREMENT, THERE ARE STILL 15-20 OUTSTANDING QUESTIONS TO BE RESOLVED CONCERNING PRIMARILY PRICING OF INPUTS AND OUTPUTS WHICH WILL DETERMINE FINANCIAL FEASIBILITY OF PROJECT. PRINCIPAL PROBLEM APPEARS TO BE INABILITY OF VARIOUS SAUDI ECONOMIC ORGANIZATIONS TO MAKE NECESSARY DECISIONS.

3. MIN INDUSTRY AL-QUSAYBI HAS BEEN MAKING MAJOR EFFORT TO RESOLVE THESE PROBLEMS. NONETHELESS, THUS FAR, HE HAS BEEN UNABLE TO GET NECESSARY DECISIONS FROM VARIETY OF ORGANIZATIONS INCLUDING PETROMIN AND MINISTRY OF PLANNING. AT QUSAYBI'S INVITATION, JACK ST. CLAIRE, PRESIDENT OF SHELL CHEMICAL AND EXECUTIVE VICE PRESIDENT OF SHELL OIL WILL VISIT SAUDI ARABIA IN MID-OCTOBER TO MEET WITH CONCERNED SAUDI MINISTERIAL LEVEL OFFICIALS. IF THESE MEETINGS FAIL TO RESOLVE OUTSTANDING ISSUES, AL-QUSAYBI APPARENTLY WILL ASK FAHD TO RESOLVE OUTSTANDING DISPUTES. SHELL PLANS TO BRIEF AMBASSADOR WEST ON OUTCOME OF THESE DISCUSSIONS AND HAS PROMISED DEPARTMENT PAPER OUTLINING ISSUES TO BE RESOLVED. AT THIS TIME, SHELL IS NOT ASKING USG ASSISTANCE, BUT SIMPLY WISHES TO INFORM DEPARTMENT OF THEIR EXTENSIVE PREVIOUS EFFORTS TO RESOLVE DISPUTED

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ISSUES AND POSSIBILITY IN THAT PROJECT MIGHT BE ABANDONED IF SAUDIS UNABLE TO RESOLVE THESE TECHNICAL ISSUES.

4. SHELL CONSIDERS ALL OF THE ABOVE INFORMATION TO BE PROPRIETARY AND HAS REQUESTED THAT IT BE PROTECTED. INCIDENTALLY, BECAUSE OF SECTION 911 OF THE TAX LAW ONLY 32 OUT OF ALMOST 1000 EXPATRIATES TO BE EMPLOYED WHEN PLANT IS FULLY OPERATIONAL WILL BE AMERICAN. CHRISTOPHER

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